INTERCO
INCORPORATED

60th annual report
1971

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PHILIP N. HIRSCH, Vice President
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RONALD L. AYLWARD Vice President and General Counsel
RICHARD H. ELY, Secretary
JOHN R. METCALF, Controller
EDWARD P. GRACE, Assistant Treasurer
DUANE L. STARR, Assistant Treasurer

EXECUTIVE OFFICES

Ten Broadway
St. Louis, Missouri 63102

TRANSFER AGENTS

Manufacturers Hanover Trust Company
New York, New York

Mercantile Trust Company National Association
St. Louis, Missouri

REGISTRARS

Morgan Guaranty Trust Company
New York, New York

St. Louis Union Trust Company
St. Louis, Missouri

Annual Meeting of Stockholders

will be held at 10 a.m. on March 13, 1972
Stouffer's Riverfront Inn,
200 South 4th Street, St. Louis, Missouri.
Notice of the meeting and proxy statement will be sent to stockholders in a separate mailing.

CONTENTS

1971 Annual Report

INTERCO INCORPORATED

Highlights of the Year

FISCAL YEARS ENDED NOVEMBER 30,	1971	1970	CHANGE
From operations:			
Net sales	$847,392,532	$777,885,776	+ 8.9%
Earnings before Federal and foreign taxes	58,852,974	53,151,390	+10.7%
Net earnings	31,495,367	27,568,667	+14.2%
Percent of net sales	3.7%	3.5%	
Per share of common stock:			
Fully diluted earnings	3.14	2.85	+10.2%
Dividends	1.20	1.10	+ 9.1%
Financial condition at year end:			
Working capital	246,317,985	211,181,917	+16.6%
Current ratio	3.6 to 1	3.0 to 1	
Total assets	437,916,834	416,066,765	+ 5.3%
Stockholders' equity	264,634,760	227,314,303	+16.4%
Book value per common share	$26.46	$23.72	+11.6%
Return on average stockholders' investment	12.7%	12.5%	
Shares outstanding at year end:			
Common stock	9,140,285	7,459,649	
Preferred stock	255,415	731,708	
Number of stockholders	14,700	15,100	
Number of employees	37,000	37,200	

To Our Stockholders:

The business of INTERCO is the manufacturing and retailing of popular-priced consumer goods. Our products are basic necessities to the expanding middle-income population.

The performance for the fiscal year 1971—our 60th Anniversary—fully met our budgeted goals and planned objectives.

> Sales and earnings again established new records for the eighth consecutive year, and the financial position is the strongest in our long history.

Equally important was the consistent improvement shown in each of the fiscal quarters, as sales and earnings were higher than the corresponding quarters of the prior year.

Each of INTERCO's three operating groups—Apparel Manufacturing, General Retail Merchandising, and Footwear Manufacturing and Retailing—exceeded their record sales and earnings performance of a year ago. These results were achieved in a restrained and cautious economy with aggressive marketing programs and continuing attention to cost and inventory controls by forward thinking management teams in each of our operating divisions.

Communication through monthly meetings of the Operating Board continues to be one of the most effective tools of our organizational structure. The Operating Board, which consists of the senior officers of INTERCO and the chief officer of each major operating division, provides a forum for regular coordination of overall corporate objectives, as well as the opportunity to share in a free exchange of the latest business techniques and trends from each part of our growing company. Our divisions draw on each other's strength in marketing, manufacturing, retailing and general management.

Your Board of Directors, on December 1, 1971, increased the quarterly common stock dividend rate from 30 cents to 31 cents per share—an annual rate of $1.24 per common share. In keeping with the spirit of President Nixon's economic program, the rate of increase followed the guidelines established by the government's Committee on Interest and Dividends which limits any increase in dividends to no more than 4%. The new common dividend rate was effective with the January 5, 1972 payment, marking the seventh successive year in which the rate has been increased.

The dividend increase would have been greater had it not been for the economic control program; however, your management continues to believe that it is in the best interests of the company and its stockholders to retain a major portion of the earnings in the business to finance continued growth.

During the year we have been faced with many changes brought about by various government actions: import quotas—international monetary conditions—regulations established by the Cost of Living Council, as a result of the new economic stabilization program—and the 1971 Revenue Act. All of these changes will affect our business, but in what way and to what extent is difficult to project at this early date. However, we believe the potential increase in consumer spending, the stimulus from recent changes in government taxation, the availability of money and credit, and the predicted slowdown of inflation, will continue to strengthen the economy and the business of INTERCO.

Our priority objective in 1972 will be to increase the return on the investment our stockholders have made in the business, and review possible acquisitions which may benefit our long-range profit potential and build new strengths for INTERCO INCORPORATED.

We are confident that we have the resources necessary for continued growth and that 1972 will be another year of progress for the company.

Working together, INTERCO people posted the best year in the history of the company. We are grateful to them, to our stockholders for their continued confidence, and to our customers and suppliers.

For the Board of Directors,

M. R. Chambers

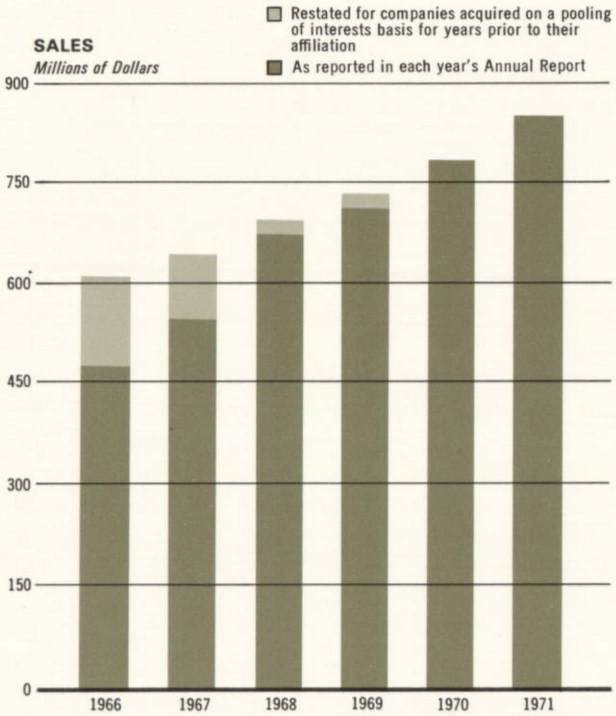
Chairman of the Board and
Chief Executive Officer

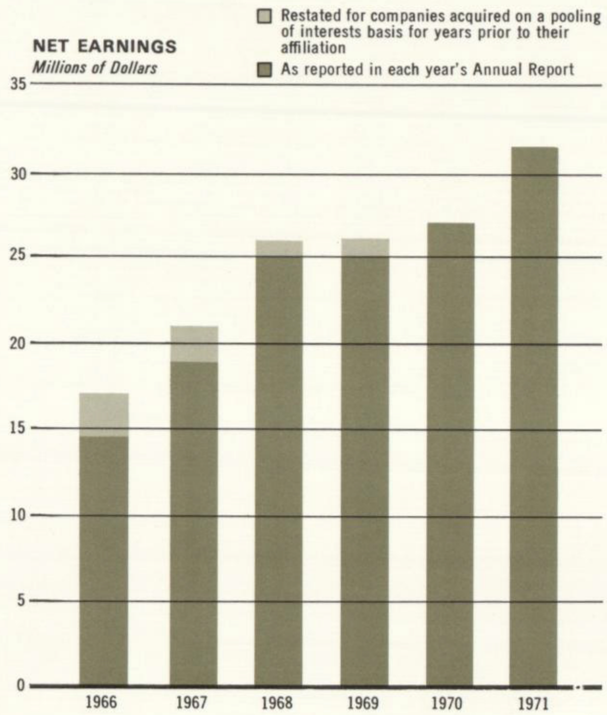
J K Riedy

President and Chief
Operating Officer

January 7, 1972

The Year in Review: Corporate





INTERCO INCORPORATED in 1971—its 60th Anniversary—had record sales of $847,392,532 and a new high in net earnings of $31,495,367 equal to $3.14 per common share—fully diluted. Each of the three major operating groups contributed to this record performance.

SALES

Net sales for the year ended November 30, 1971, rose to $847,392,532, an increase of $69,506,756, or 8.9% over fiscal 1970 sales of $777,885,776.

The three major operating groups of INTERCO reported higher sales in the year just ended as shown in the following comparison with fiscal 1970:

	Fiscal 1971		Fiscal 1970	
	Amount	%	Amount	%
Apparel	$163,592,116	19	$153,887,175	20
General Retail	294,233,734	35	244,084,767	31
Footwear	389,566,682	46	379,913,834	49
Total	$847,392,532	100	$777,885,776	100

Sales of the General Retail Merchandising group showed the greatest increase in fiscal 1971, primarily due to the inclusion of Eagle Family Discount Stores from July 31, 1970, date of acquisition.

EARNINGS

Earnings before income taxes for the year reached $58,852,974, an increase of 10.7% over 1970. This improvement in pre-tax income is partially the result of cost reduction programs, budgetary controls, and maximizing opportunities while minimizing risk.

The contribution of each major operating group of INTERCO to the record earnings, before income taxes and corporate expenses, including interest cost, is shown on a comparative basis below:

	Fiscal 1971		Fiscal 1970	
	Amount	%	Amount	%
Apparel	$13,561,024	21	$11,475,007	19
General Retail	15,923,512	24	15,459,654	25
Footwear	36,237,218	55	33,903,703	56
Total	65,721,754	100	60,838,364	100
Corporate expenses and interest cost	6,868,780		7,686,974	
Earnings before income taxes	$58,852,974		$53,151,390	

Net earnings for 1971 were $31,495,367, an increase of 14.2% over the prior year earnings of $27,568,667. This performance resulted in a net after tax earnings on sales of 3.7% compared to 3.5% in fiscal 1970.

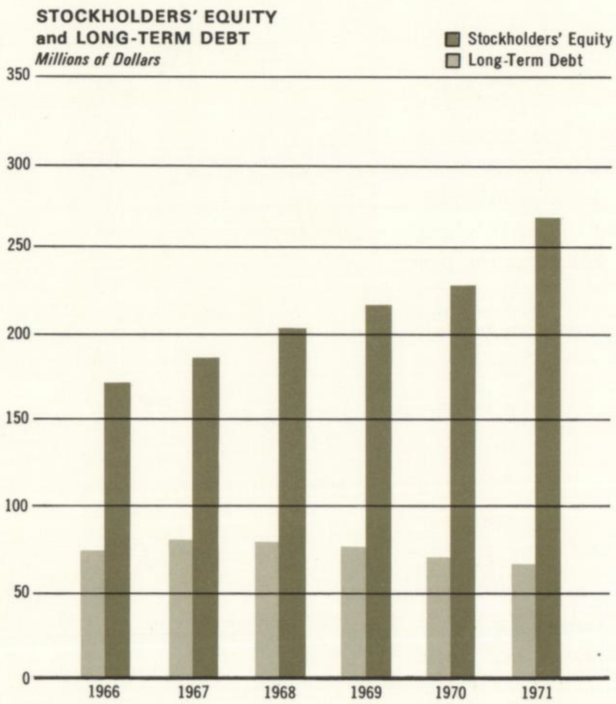
The 1971 net earnings were favorably influenced by a slightly lower effective income tax rate of 46.5%, which is the result of the elimination of the Federal income tax surcharge during fiscal 1970 and reinstatement of the 7% investment tax credit, offset by the continuing decrease in the surtax exemption for multi-corporate companies.

Earnings per common share, assuming full conversion of outstanding preferred stock and exercise of stock options, were $3.14 compared with $2.85 in fiscal 1970.

FINANCIAL POSITION

INTERCO improved its strong financial position during 1971.

- Working capital reached a new high of $246,317,985—an increase of $35,136,068 over fiscal 1970.
- The ratio of current assets to current liabilities was 3.6 to 1 compared with 3.0 to 1 at November 30, 1970.
- The net cash position at November 30, 1971—the excess of cash over short-term notes—amounted to $33,893,566 as compared to $4,681,473 one year ago. This improvement partially came from the net proceeds of $16,842,569 from the sale of 400,000 shares of INTERCO common stock in an underwritten public offering in April, 1971.
- Increases in accounts receivable, inventories and accounts payable reflected the new retail stores opened during the year and the higher level of sales.
- Long-term debt, less current maturities, at year-end 1971 was $66,353,697 and represented 20% of the invested capital of the company.



- Stockholders' equity at the end of fiscal 1971 was $264,634,760, an increase of $37,320,457 since November 30, 1970. A summary of stockholders' equity is included in the Consolidated Financial Statements.

CAPITAL EXPENDITURES

In 1971 capital expenditures amounted to $13,089,787 providing expansion and modernization of the company's manufacturing and distribution facilities and its retail stores. These expenditures were largely provided by depreciation of $9,129,145.

The large new distribution center of Central Hardware Company, at St. Louis, Missouri, which was opened late in 1971, was leased under financially advantageous terms.

Capital spending in 1972 is projected to be $14,000,000 with depreciation estimated at $9,700,000.

CAPITAL STOCK

The company had 9,140,285 shares of common stock outstanding on November 30, 1971, compared with 7,459,649 shares a year earlier. The increase of 1,680,636 shares of common is primarily the result of the following:

- 1,244,385 shares issued upon conversion of 482,094 shares of preferred stock, Series A, B and C.
- 400,000 shares issued in April, 1971, in an underwritten public offering.
- 34,060 shares issued upon exercise of stock options.

There were 189,656 shares of common stock being held in the treasury on November 30, 1971, for future corporate needs, which included 10,000 shares purchased during the year.

DIVIDENDS

Four quarterly dividends of $0.30 per share of common stock were paid during 1971.

On December 1, 1971, your Board of Directors increased the common stock quarterly dividend to $0.31 per share effective with the January 5, 1972 payment. This is equal to an annual rate of $1.24. The company has paid dividends to common stockholders for 59 continuous years, and the January 5 payment marked the 243rd consecutive payment.

INTERCO paid regular dividends of $1,787,375 to holders of the three issues of preferred stock and $10,059,455 in dividends were paid to the common stockholders, a total of $11,846,830. These payments represented 37.6% of 1971 net earnings.

ACQUISITIONS

During 1971, INTERCO continued its search for acquisitions which fall within the guidelines established by the company. However, only two smaller companies joined INTERCO during the year:

- In January 1971, INTERCO expanded its ability to serve the fabric design and apparel industries of Canada through the acquisition for cash of C. Northcott Silk Company Limited of Toronto. This company is a wholesale distributor of fabric to the over-the-counter retail yard goods trade in Canada with sales in excess of $3,500,000.

- On December 1, 1971, Golde's Department Stores, Inc., joined INTERCO in an exchange of capital stock. The company operates two stores in suburban St. Louis with sales of $4,600,000 in its latest fiscal year. Future plans include the expansion of this very successful operation. Since the transaction was not completed before the close of the fiscal year, their operating results are not included in the 1971 financial statements of INTERCO.

ORGANIZATIONAL DEVELOPMENTS

The importance of providing continuity of capable and experienced corporate and divisonal leadership resulted in the following promotions during the year:

On December 13, 1971, the Board of Directors elected William L. Edwards, Jr. formerly Executive Vice President of INTERCO, to a new position of Senior Executive Vice President and to continue as Chief Financial Officer. Also, Richard P. Hamilton, President of The Florsheim Shoe Company, a division of INTERCO, and Ronald L. Aylward, General Counsel of the company, were elected Vice Presidents of INTERCO.

At our subsidiary companies during the year,

- Webster L. Cowden, President of Cowden Manufacturing Company for twelve years, was elected Chairman of the Board and William B. Cowden, formerly Executive Vice President, was named President of this company.
- Samuel S. Kaufman, President of Campus Sweater & Sportswear Company for over twenty-five years, was elected Chairman of the Board and Melvin M. Brown, who was formerly Executive Vice President of this subsidiary, was appointed President.
- Herbert Shainberg, President of Sam Shainberg Company for eleven years, was elected Chairman of the Board and Melvin G. Grinspan, formerly a Vice President, was elected President of this company.

Each of the three new Presidents have held various positions for over twenty-five years with each of our subsidiary companies.

The Board of Directors of INTERCO on December 13, 1971, appointed Melvin M. Brown and Melvin G. Grinspan to the Operating Board of INTERCO upon their election as President of Campus Sweater & Sportswear Company and Sam Shainberg Company, respectively.

FIVE YEAR SUMMARY

Your attention is directed to the Five Year Consolidated Financial Review on page 23 for a more detailed presentation of the company's growth. The comparisons are particularly significant since they reflect the internal growth of the operations of the companies which now constitute the INTERCO base of operations.

PRINCIPAL OPERATING FACILITIES

	1971	1970
Apparel Manufacturing Group		
Factories:		
The Biltwell Company, Inc.	3	3
Campus Sweater & Sportswear Company	16	16
Cowden Manufacturing Company	11	11
	30	30
General Retail Merchandising Group		
Stores in operation:		
Central Hardware Company	21	26
Eagle Family Discount Stores, Inc.	134	126
Fine's Men's Shops, Inc.	10	10
P. N. Hirsch & Company	218	214
Sam Shainberg Company	111	108
	494	484
Footwear Manufacturing and Retailing Group		
Factories:		
The Florsheim Shoe Company	14	12
International Shoe Company	18	19
Interco Savage Limited	5	6
	37	37
Shoe stores and departments:		
The Florsheim Shoe Company	456	429
International Retail Shoe Company	376	415
Interco Savage Limited	61	64
	893	908
	1454	1459

The Business of INTERCO INCORPORATED

Manufacturers and Retailers of Popular-Priced Consumer Products

1911-1971 60 years

APPAREL MANUFACTURING GROUP

Campus Sweater & Sportswear Company
Cleveland, Ohio

Cowden Manufacturing Company
Lexington, Kentucky

The Biltwell Company, Inc.
St. Louis, Missouri

GENERAL RETAIL MERCHANDISING GROUP

Central Hardware Company
St. Louis, Missouri

Eagle Family Discount Stores, Inc.
Miami, Florida

Fine's Men's Shops, Inc.
Norfolk, Virginia

P. N. Hirsch & Company
St. Louis, Missouri

Sam Shainberg Company
Memphis, Tennessee

FOOTWEAR MANUFACTURING & RETAILING GROUP

The Florsheim Shoe Company
Chicago, Illinois

International Retail Shoe Company
St. Louis, Missouri

International Shoe Company
St. Louis, Missouri

Interco Savage Limited
Preston, Ontario, Canada

Apparel Manufacturing Group

INTERCO entered the apparel manufacturing business in fiscal 1965 and today manufactures and distributes a full range of popular-priced, branded and unbranded sportswear, jeans, slacks, and other leisure clothing for men, young men and boys.

In 1971 the apparel group contributed $163,592,116, or 19% of the total sales. Most of its products are manufactured in thirty plants in the United States and shipments to its customers are made through distribution centers in Ohio, Kentucky, South Carolina and Missouri and includes:

CAMPUS, manufacturers and distributors of a branded line of slacks, sport and dress shirts, knit shirts, sweaters, sport coats and outerwear to independent retail apparel stores, department stores, and chain stores.

In 1971 earnings reached a record high and Campus is confident it will accelerate its growth in 1972—the 50th Anniversary year—by continuing to market a complete range of male fashion apparel at competitive prices.

To continue to meet the growing demand for Campus products, the company will expand its manufacturing facilities in 1972. The capital projects include renovations and 125,000 square feet of additions and new plant locations.

COWDEN continued its consistent growth during the year—specializing in the manufacture of jeans for men and boys. They continued to concentrate their marketing through large national retail chains, under private label.

Record sales and earnings were attained in 1971 and the prospects for 1972 indicate another good year as Cowden will expand its sales effort in the market it serves.

BILTWELL, manufacturer and distributor of branded and private label men's slacks, successfully introduced sport coats and coordinated jackets to its customers in 1971—the second year of association with INTERCO.

Substantial increases in sales and earnings were recorded during the year and the prospects for the new year indicate future growth.

General Retail Merchandising Group

INTERCO entered the general retail merchandising business in fiscal 1964 and today offers a wide range of popular-priced consumer products and services to the entire family.

In 1971 this group contributed $294,233,734, or 35% of the total sales of INTERCO, through its 494 stores located in twenty-three states and includes:

CENTRAL HARDWARE, a mass merchandiser of hardware, home improvement, lumber and building supplies, major appliances, plumbing fixtures, sporting goods and toys, serving three principal marketing areas—St. Louis, Indianapolis and southern California. Central increased its market penetration during 1971 with the opening of four new super stores—three in metropolitan St. Louis and one in Indianapolis.

Central moved into its new distribution center in suburban St. Louis in the Fall of the year, and this new facility will increase Central's ability to grow, greatly accelerate service to its customers and stores, and improve operating and merchandising controls.

This retail operation looks forward to sound profitable growth through further development of consumer interest in its "Do It Yourself" program coupled with strong "Home Modernization" services.

EAGLE FAMILY DISCOUNT STORES had record sales and earnings during its first full year of association with INTERCO.

This growing discount chain offers clothing, housewares, small appliances, gardening and pool supplies, toys, hardware and health and beauty aids. Approximately 10,000 discount items are featured, thirty percent of which carry the Eagle label.

Eagle will expand its business principally in the central part of Florida, following a well-defined program which includes the opening of more than twenty new units in 1972.

1 *Fine's Men's Shops are located in Virginia and North Carolina.*

2 *Another new Kent's self-service store.*

3 *One of the 134 self-service Eagle Family Discount Stores, operating primarily in Florida.*

4 *Interior view of new giant Central Hardware store, one of four opened in midwest in 1971.*

5 *Golde's Department Stores—two stores in suburban St. Louis acquired in December 1971.*

6 *A new Shainberg's store for the family.*

7 *Interior view of a typical P. N. Hirsch department store.*

1


SPORTSWEAR
$1
$5
LADIES

2


DISCOUNT PRICES
LADIES DEPT.

3

4


GOLDE'S
DEPARTMENT STORE

5


CHARGE ACCOUNTS
FABULOUS FALL FESTIVAL!

7

6

FINE'S MEN'S SHOPS, apparel and accessory specialty stores for men, increased their sales and earnings in the year just closed. Expansion plans for the new year include three additional stores in the mid-Atlantic region as well as a new central distribution center to more efficiently service its growing number of retail outlets.

Fine's will continue to supply the needs of the ever-growing market for fashionable male sportswear and clothing at popular prices.

P. N. HIRSCH had another record sales year and continued to make a substantial contribution to INTERCO's earnings in 1971.

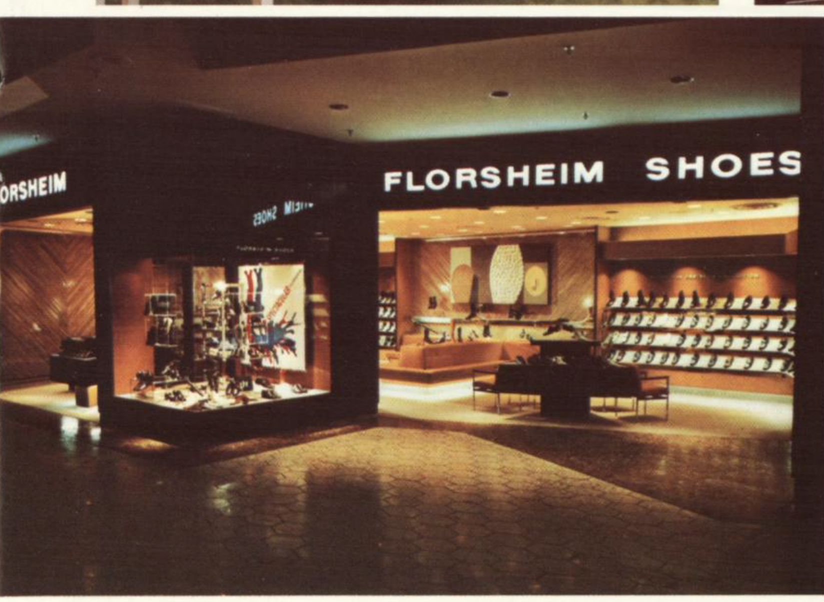
These achievements are a result of an aggressive management program concentrated on satisfying the basic clothing and household needs at 218 retail stores located principally in small and medium-sized communities throughout the Midwest and Northwest.

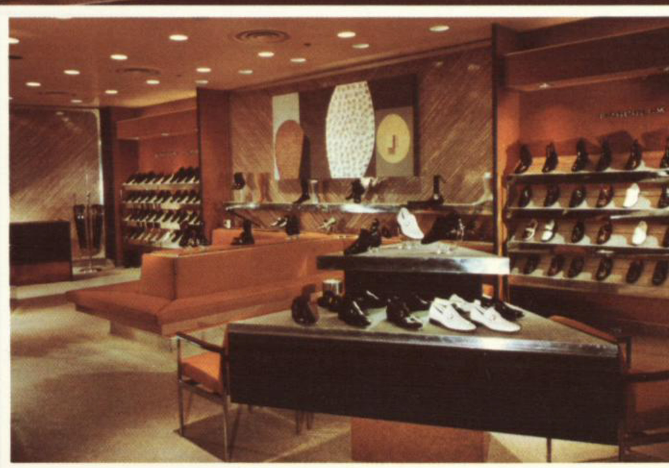
Anticipated future growth prompted a recent decision to construct a modern 100,000 square foot regional warehouse in Vandalia, Illinois to better serve the needs of the area.

SHAINBERG operates two types of retail stores in six southeastern states—"Shainberg's" and "Kent's"—which appeal to the clothing, homefurnishing, and small houseware requirements of a large segment of our economy. Shainberg stores concentrate at the popular-price level with fashion merchandise. Kent stores feature discount prices to the budget-conscious consumer.

In 1972, Shainberg will add 185,000 square feet to its present distribution facility in Memphis, Tennessee which will enable it to better serve this constantly expanding chain.

Footwear Manufacturing And Retailing Group





Some of the New Retail Shoe Stores opened during the year

INTERCO entered the footwear manufacturing and wholesaling business in 1911 and today—after 60 years—continues as a leading producer of men's, women's and children's footwear in most major price categories in the United States and Canada, as well as the largest manufacturer and distributor of quality men's footwear in Australia. Among the company's major brands for men are: Florsheim, Hy-Test, Rand, Ambassador, McHale, Winthrop, and Julius Marlow. Shoes for women produced by the company are: Florsheim, Personality, Miss Wonderful, Vitality, and Denny Stewart. Children's brands are Poll-Parrot, Red Goose and Savage.

This group operates 37 shoe manufacturing plants, 893 retail shoe stores and leased department operations and 7 modern, centrally-located distribution centers.

In 1971 footwear contributed $389,566,682, or 46% of the total sales of INTERCO as compared to $295,615,393, which represented 100% of the sales in 1963, the year prior to the diversification program, and includes:

FLORSHEIM —which had another outstanding year in 1971 and again established new highs in sales and earnings.

The Florsheim Shoe—men's and women's—from classics to boots—continues to dominate in the field of quality fashion footwear and offers a complete line of shoes—for all age groups. Florsheim enjoys an unchallenged reputation for leadership in the markets it serves.

Florsheim retail expansion continued as a result of successful regional and national merchandising programs. "Florsheim Men's Shoe Shops" and "Thayer McNeil Shoe Salons" were opened primarily in new regional shopping centers.

Julius Marlow Holdings Limited, an Australian subsidiary, maintained its dominant position during 1971 as the leading Australian manufacturer of men's quality shoes. Record earnings were attained, as in every year since joining INTERCO in 1963.

Florsheim enters 1972—its 80th anniversary year—confident of substantial future growth through its outstanding dealer organization and its own retail outlets.

INTERNATIONAL RETAIL SHOE in 1971 had increased sales and earnings. Average sales volume per location continued to increase as the company opened nine new large-volume stores and ten leased shoe departments in various areas of the country, and eliminated many small marginal units.

International Retail Shoe is budgeting another increase in both sales and earnings for 1972.

INTERNATIONAL SHOE, engaged in the manufacture and distribution of medium and popular-priced footwear for men, women and children, operates in a highly competitive and challenging industry.

All of the pressures which have existed in the domestic shoe manufacturing industry in recent years persisted through 1971. However, this division again made an outstanding


FLORSHEIM
HAS EVERYTHING
YOU HAVE
EVER WANTED


Florsheim
WOMEN'S SHOE COLLECTION

contribution to the footwear group and to the company. An improved profit ratio was achieved by well-planned cost reduction programs coordinated with an improvement in operating and production procedures. During the year, International Shoe developed innovative manufacturing techniques which will offer important new marketing opportunities.

They are completely alert to the rapid changes in fashion and enter the new year in an excellent inventory position—well prepared to meet the demands of the market.

INTERCO SAVAGE LIMITED, the company's Canadian subsidiary, is comprised of three principal operating divisions: manufacturing of footwear for men, women and children; operation of retail shoe stores and leased shoe departments; converting and wholesaling of fabrics for the apparel manufacturers and general retailers in Canada.

In 1971, the fabric division continued its improvement in sales and earnings. Footwear manufacturing and retailing had small decreases and a program to consolidate the shoe manufacturing plants is underway, as well as a major reorganization of the retail stores division.

These actions will produce improved earnings in 1972 for INTERCO's Canadian operations.

Consolidated Financial Statements

Consolidated Balance Sheet

Assets

November 30,	1971	1970
Current assets:		
Cash	$ 33,893,566	$ 24,766,819
Receivables, less allowance for doubtful accounts and cash discounts, $2,610,471 ($2,644,409 in 1970)	114,703,677	112,758,591
Inventories:		
Finished products and other merchandise	150,515,250	142,922,274
Raw materials and work in process	39,394,592	34,601,951
	189,909,842	177,524,225
Prepaid expenses	2,744,653	2,494,192
Total current assets	341,251,738	317,543,827
Other assets:		
Future Federal income tax benefits	2,870,459	2,563,003
Excess of investment over equity in consolidated subsidiaries at acquisition, net of amortization	10,502,230	10,619,259
Sundry investments and other assets	5,209,254	5,295,612
Total other assets	18,581,943	18,477,874
Property, plant and equipment, at cost:		
Land	4,673,551	5,438,704
Buildings and improvements	72,076,201	74,942,055
Machinery and equipment	79,531,021	76,783,633
	156,280,773	157,164,392
Less accumulated depreciation	78,197,620	77,119,328
Net property, plant and equipment	78,083,153	80,045,064
	$437,916,834	$416,066,765

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

November 30,	1971	1970
Current liabilities:		
Notes payable	$ —	$ 20,085,346
Current maturities of long-term debt	4,557,916	5,088,007
Accounts payable and accrued expenses	80,207,622	71,269,128
Federal and foreign income taxes	10,141,911	9,431,770
Deferred Federal income taxes	26,304	487,659
Total current liabilities	94,933,753	106,361,910
Other liabilities:		
Deferred compensation and other deferred liabilities	9,413,491	9,225,894
Long-term debt, less current maturities	66,353,697	70,397,518
Minority interests in subsidiaries	2,581,133	2,767,140
Total other liabilities	78,348,321	82,390,552
Stockholders' equity:		
Preferred stock, at stated and liquidating value:		
First preferred — Series A	5,433,900	15,103,800
First preferred — Series B	1,869,520	15,207,640
Second preferred—Series C	15,433,800	20,047,900
	22,737,220	50,359,340
Common stock, at stated value	69,974,558	57,460,230
Capital surplus	33,446,496	519,553
Retained earnings	143,921,534	124,613,613
	270,079,808	232,952,736
Less common stock in treasury, at cost	5,445,048	5,638,433
Total stockholders' equity	264,634,760	227,314,303
	$437,916,834	$416,066,765

consolidated statement of earnings

Years Ended November 30,	1971	1970
Sales and other income:		
Net sales	$847,392,532	$777,885,776
Other income, net	7,422,361	6,787,131
	854,814,893	784,672,907
Deductions:		
Cost of sales	591,994,193	543,195,731
Selling, general and administrative expenses	199,098,026	182,030,458
Interest expense	4,548,151	5,948,184
Minority interests	321,549	347,144
	795,961,919	731,521,517
Earnings before Federal and foreign income taxes	58,852,974	53,151,390
Federal and foreign income taxes:		
Current	28,126,418	26,073,006
Deferred—Federal	(768,811)	(490,283)
	27,357,607	25,582,723
Net earnings	$ 31,495,367	$ 27,568,667
Per share of common stock:		
Fully diluted earnings	$3.14	$2.85
Primary earnings	$3.42	$3.31

See accompanying notes to consolidated financial statements.

consolidated statement of changes in financial position

Years Ended November 30,	1971	1970
Working capital provided by:		
Net earnings	$ 31,495,367	$ 27,568,667
Depreciation and amortization	9,418,008	8,938,373
Increase in future Federal income tax benefits	(307,456)	(637,783)
Operations	40,605,919	35,869,257
Disposal of property, plant and equipment	5,947,337	3,385,196
Sale of common stock	16,842,569	—
Issuance of common stock for conversion of preferred stock—contra below	28,117,560	812,160
Exercise of stock options	1,255,816	145,283
Working capital of purchased companies	451,449	3,403,217
	93,220,650	43,615,113
Working capital used for:		
Purchase of property, plant and equipment	13,089,787	15,237,953
Cash dividends	11,846,830	10,654,151
Conversion of preferred stock—contra above	28,117,560	812,160
Reduction of long-term debt	4,239,188	4,397,209
Purchase of companies	509,200	9,537,684
Purchase of company's stock	426,465	4,730,560
Other, net	(144,448)	548,689
	58,084,582	45,918,406
Increase (decrease) in working capital	$ 35,136,068	$ (2,303,293)
Working capital increased (decreased) by:		
Cash	$ 9,126,747	$ 378,845
Receivables	1,945,086	3,377,803
Inventories	12,385,617	15,986,095
Notes payable	20,085,346	(13,781,232)
Current maturities of long-term debt	530,091	(464,518)
Accounts payable and accrued expenses	(8,938,494)	(10,215,753)
Other current assets and liabilities, net	1,675	2,415,467
	$ 35,136,068	$ (2,303,293)

See accompanying notes to consolidated financial statements.

consolidated statement of stockholders' equity

Years Ended November 30, 1971 and 1970

	Preferred Stock	Common Stock Issued	Common Stock In Treasury	Capital Surplus	Retained Earnings	Total
Balance November 30, 1969..	$47,237,380	$57,186,022	$ (921,235)	$ —	$111,482,897	$214,985,064
Net earnings.................					27,568,667	27,568,667
Cash dividends:						
Preferred stock............					(2,497,603)	(2,497,603)
Common stock—$1.10 per share.....................					(8,156,548)	(8,156,548)
Conversion of preferred stock:						
Series A—6,952 shares.....	(695,200)	226,598		468,197		(405)
Series B—2,924 shares.....	(116,960)	43,860		73,100		
Purchase of company's stock:						
Series B — 195 shares.	(7,800)			(3,719)		(11,519)
Common—159,768 shares.			(4,717,198)			(4,717,198)
Issuance of 37,920 contingent Series C shares............	3,792,000			(9,638)	(3,783,800)	(1,438)
Exercise of stock options:						
Series B —3,323 shares....	132,920			(17,884)		115,036
Series C — 170 shares....	17,000			(2,878)		14,122
Common— 500 shares....		3,750		12,375		16,125
Balance November 30, 1970..	50,359,340	57,460,230	(5,638,433)	519,553	124,613,613	227,314,303
Net earnings.................					31,495,367	31,495,367
Cash dividends:						
Preferred stock............					(1,787,375)	(1,787,375)
Common stock—$1.20 per share....................					(10,059,455)	(10,059,455)
Sale of 400,000 common shares.....................		3,000,000		13,842,569		16,842,569
Conversion of preferred stock:						
Series A— 96,699 shares..	(9,669,900)	3,152,820		6,514,822		(2,258)
Series B—334,864 shares..	(13,394,560)	5,022,960		8,371,600		
Series C— 50,531 shares..	(5,053,100)	1,157,107		3,895,536		(457)
Purchase of 10,000 common shares.....................			(423,750)			(423,750)
Issuance of 12,191 contingent common shares...........			340,616		(340,616)	
Exercise of stock options:						
Series B — 1,411 shares..	56,440			(12,092)		44,348
Series C — 4,390 shares..	439,000			(143,467)		295,533
Common—34,060 shares..		180,451	279,500	455,984		915,935
Series B treasury shares converted to 132 common treasury shares...........		990	(2,981)	1,991		
Balance November 30, 1971..	$22,737,220	$69,974,558	$(5,445,048)	$33,446,496	$143,921,534	$264,634,760

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

November 30, 1971 and 1970

Principles of Consolidation—All subsidiaries with a 51% or greater ownership are consolidated in the accompanying financial statements. Excess of investment over equity in consolidated subsidiaries, except for approximately $5,500,000 which arose prior to December 1, 1969, is being amortized on a straight-line basis, generally over forty years.

Inventories—Approximately 94% of the inventories are priced at the lower of cost (first-in, first-out) or replacement market. The remainder of the inventories are priced at cost (last-in, first-out) which is below replacement market.

Federal Income Taxes—Deferred compensation, depreciation, profit on installment sales and certain other items are recognized for income tax purposes in years other than the years in which they are reported in the financial statements. The tax effects of these timing differences are shown in the financial statements as Future Federal income tax benefits and Deferred Federal income taxes.

During 1971 the company elected the "flow through" method of accounting for the 7% investment tax credit which reduced the current year's tax liability by $235,852.

The Federal income tax returns of the company and its major subsidiaries for the four taxable years beginning with 1965 have been examined or are being examined by the Internal Revenue Service. Reports have been received indicating proposed tax deficiencies with respect to some of the subsidiary corporations. Among the issues raised, the significant one is whether certain subsidiary corporations are to be taxed separately or whether they are to be taxed as a single corporation. Management continues to oppose these issues and is of the opinion that they ultimately will have no material adverse effect on the company's financial position.

Property, Plant and Equipment—For financial reporting purposes, depreciation of physical properties aggregating $9,129,145 in 1971 and $8,636,544 in 1970 is computed generally on a straight-line basis over the estimated useful life of each class of asset.

Long-Term Debt—Long-term debt includes the following:

	1971	1970
4⅝% promissory installment notes, payable $1,875,000 annually, 1972-1989, and balance in 1990	$46,250,000	$48,125,000
6% promissory installment notes, payable $750,000 annually, 1972-1975, $1,250,000 annually, 1976-1979, and balance in 1980	12,000,000	12,750,000
4¾% obligation under long-term lease, payable in annual installments increasing from $240,000 in 1972 to $565,000 in 1991	7,655,000	7,880,000
Other debt at 4% to 8% interest rates, payable in varying amounts through 1993	5,006,613	6,730,525
	70,911,613	75,485,525
Less current maturities	4,557,916	5,088,007
	$66,353,697	$70,397,518

The 4⅝% note agreement restricts retained earnings of $43,810,400 as to the payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. The agreement also provides that no such payments be made unless consolidated working capital shall be at least $80,000,000.

Preferred Stock—The company's preferred stock is issuable in series. Authorized preferred stock consists of 577,060 shares of first preferred (Series A and B) and 1,000,000 shares of second preferred (Series C) without par value. Such stock is summarized as follows:

Series A—$4.75 cumulative, with stated and involuntary liquidating value of $100 per share; issued 54,339 shares (151,038 in 1970); callable beginning in 1974 at $104.75, decreasing to $100.00 in 1981; convertible into 4.3478 shares of common stock.

Series B—$2.10 cumulative, with stated and involuntary liquidating value of $40 per share; issued 46,738 shares (380,191 in 1970); callable beginning in 1975 at $42.10, decreasing to $40.00 in 1985; convertible into 2 shares of common stock.

Series C—$5.25 cumulative, with stated and involuntary liquidating value of $100 per share; issued 154,338 shares (200,479 in 1970); callable beginning in 1975 at $105.25, decreasing to $100.00 in 1985; convertible into 3.0534 shares of common stock.

Options are outstanding and exercisable at November 30, 1971 for 4,094 shares of Series C preferred stock at an average price of $67.35 per share.

Common Stock—The company's common stock consists of 15,000,000 shares authorized with stated value of $7.50 per share, of which 9,329,941 shares were issued at November 30, 1971 (7,661,364 in 1970), including 189,656 shares (201,715 in 1970) in treasury. At November 30, 1971, 1,247,245 shares of common stock are reserved, of which 813,487 shares are for conversion of preferred stock, 311,515 shares for common stock options and 122,243 shares for issuance of contingent shares, based on profit performance of acquired companies.

Under various stock option plans, certain key employees may purchase shares of common stock at prices equal to market value on the dates the options were granted. The options become exercisable in installments and expire in five years. Changes in options granted are summarized as follows:

	1971		1970	
	Shares	Average Price	Shares	Average Price
Beginning of year	260,300	$28.02	259,650	$28.67
Granted	54,350	41.25	31,750	30.29
Exercised	(34,060)	26.89	(500)	32.25
Cancelled	(4,950)	32.25	(30,600)	35.82
End of year	275,640	30.69	260,300	28.02
Exercisable	182,927		177,125	

Commitments and Contingent Liabilities—The company and its subsidiaries have pension plans covering substantially all employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. Total pension expense for the year was $5,565,000 ($5,213,000 in 1970), which includes, as to certain of the plans, amortization of prior service costs over periods ranging from 20 to 40 years. The actuarially computed value of vested benefits as of latest valuation dates of the plans exceeds the total of the pension funds by approximately $5,700,000.

Excluding rental payments on capitalized long-term leases, the company currently has leases expiring at various dates through the year 2009. All minimum annual rentals for 1972 approximate $19,000,000 with additional rentals payable under certain leases based on a percentage of sales in excess of specified minimums. Total rent expense for 1971 was $27,769,954 ($25,215,252 in 1970). The company has also guaranteed leases of retail outlets to customers which at November 30, 1971 aggregates $4,600,000, based on minimum rentals.

Earnings Per Share of Common Stock—Fully diluted earnings per share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year plus those common shares which would have been issued if conversion of all preferred stock had taken place at the beginning of the year. Common stock issuances based on profit performance and common stock options, the exercise of which would result in dilution of earnings per share, have been considered as the equivalent of common stock.

Primary earnings per share is based on those shares included in the fully diluted earnings per share calculation, except that conversion of preferred stock has not been assumed. Net earnings for this computation were reduced by preferred stock dividend requirements. Assuming all conversions of preferred stock that occurred during 1971 had taken place at the beginning of the year, primary earnings per share would have been $3.32 for 1971.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
720 Olive Street
St. Louis, Missouri

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of November 30, 1971 and 1970 and the related statements of earnings, stockholders' equity, and changes in financial position for the respective years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at November 30, 1971 and 1970 and the results of their operations, changes in stockholders' equity, and changes in financial position for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

January 7, 1972

five year consolidated financial review

INTERCO INCORPORATED

YEARS ENDED NOVEMBER 30

	1971	1970	1969	1968	1967
FOR THE YEAR			(In Thousands of Dollars)		
Net sales	$847,393	$777,886	$731,942	$691,458	$635,759
Earnings before income taxes	58,853	53,151	50,620	47,731	36,810
As a percent of sales	6.9%	6.8%	6.9%	6.9%	5.8%
Net earnings	31,495	27,569	26,378	26,040	20,922
As a percent of sales	3.7%	3.5%	3.6%	3.8%	3.3%
Cash dividends paid:					
On common stock	10,060	8,156	7,236	6,458	5,685
On preferred stock	1,787	2,498	2,429	2,087	991
AT YEAR END					
Working capital	246,318	211,182	213,485	207,943	196,002
Property, plant and equipment, net	78,083	80,045	73,238	69,690	64,506
Capital expenditures	13,090	15,238	15,961	13,571	16,274
Total assets	437,917	416,067	384,168	364,482	335,864
Long-term debt	66,354	70,398	73,582	77,436	79,457
Stockholders' equity	264,635	227,314	214,985	201,631	183,826
PER SHARE OF COMMON STOCK (1)			(In Dollars)		
Fully diluted earnings (2)	3.14	2.85	2.69	2.66	2.16
Dividends	1.20	1.10	1.00	.90	.80

(1) Adjusted for two-for-one stock split, effective March 14, 1968.

(2) Refer to Earnings per Share of Common Stock in Notes to Consolidated Financial Statements.

(3) The above figures have been restated to include pooled companies for years prior to their acquisition.

Directors
INTERCO INCORPORATED

WEBSTER L. COWDEN
Vice President of the Company
and Chairman of the Board, Cowden Manufacturing Company

DAVID R. CALHOUN
Chairman of the Board
First Union, Incorporated
and St. Louis Union Trust Company

WILLIAM L. EDWARDS, JR.
Senior Executive Vice President
of the Company

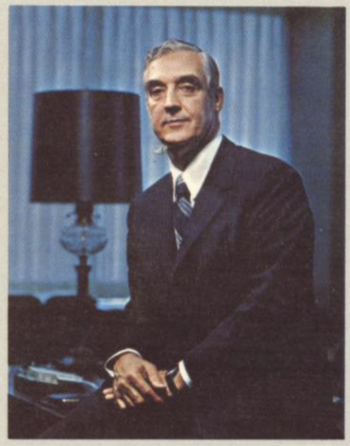
MAURICE R. CHAMBERS
Chairman of the Board
and Chief Executive Officer of the Company

RICHARD H. ELY
Secretary of the Company

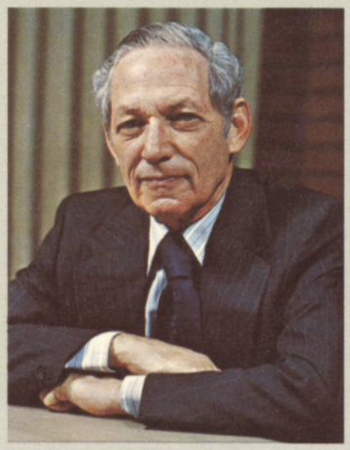
STANLEY M. COHEN
Executive Vice President of
the Company and President,
Central Hardware Company

JOSEPH FOX
Vice President of the Company and
President, International Retail
Shoe Company

SAMUEL S. KAUFMAN
Vice President of the Company
and Chairman of the Board,
Campus Sweater & Sportswear Company

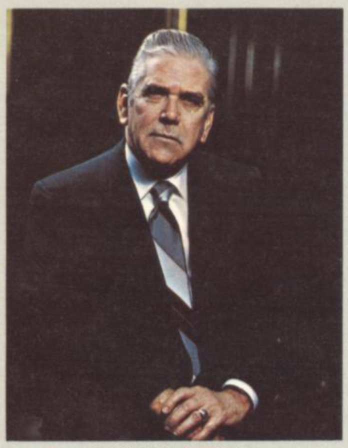


JOHN K. RIEDY
President and Chief Operating
Officer of the Company

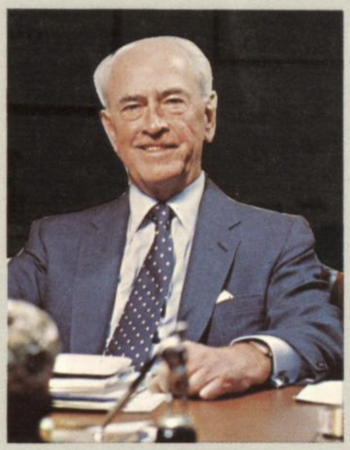


PHILIP N. HIRSCH
Vice President of the Company
and President, P. N. Hirsch & Company

DONALD E. LASATER
Chairman of the Board, Mercantile Bancorporation Inc.
and Mercantile Trust Company National Association



EDWARD J. RILEY
Vice President of the Company
and President, International Shoe Company



J. LEE JOHNSON
Retired

NORFLEET H. RAND
Vice Chairman of the Board
and Treasurer of the Company

HERBERT SHAINBERG
Vice President of the Company
and Chairman of the Board,
Sam Shainberg Company

EDWIN S. JONES
Chairman of the Board, First
National Bank in St. Louis, and
President, First Union, Incorporated

INTERCO INCORPORATED St. Louis, Missouri